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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0175**

**DIRECT TESTIMONY**

**OF**

**TERRY BASSHAM**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
February 2012**

**DIRECT TESTIMONY**

**OF**

**TERRY BASSHAM**

**Case No. ER-2012-0175**

1 **Q: Please state your name and business address.**

2 A: My name is Terry Bassham. My business address is 1200 Main, Kansas City, Missouri  
3 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am President, Chief Operating Officer (“COO”), and a member of the Board of  
6 Directors of Great Plains Energy Incorporated (“Great Plains Energy” or “GPE”), the  
7 holding company of Kansas City Power & Light Company (“KCP&L”). I am also the  
8 President and COO of KCP&L and KCP&L Greater Missouri Operations Company  
9 (“GMO” or “Company”) and I have recently been appointed by the GPE Board of  
10 Directors as the new Chief Executive Officer replacing Michael Chesser effective June 1,  
11 2012. Today, I am sponsoring this testimony on behalf of GMO for the territories served  
12 by St. Joseph Light & Power (“L&P”) and Missouri Public Service (“MPS”).

13 **Q: What are your responsibilities?**

14 A: My responsibilities include overall management of all aspects of GPE, including KCP&L  
15 and GMO.

16 **Q: Please describe your education, experience and employment history.**

17 A: I hold a Bachelor of Business Administration degree in Accounting from the University  
18 of Texas at Arlington and a Juris Doctor degree from St. Mary’s University School of  
19 Law in San Antonio, Texas. I was appointed President and COO of GPE, KCP&L and

1 GMO in 2011 and as stated above, I will assume my new role effective June 1, 2012.  
2 Prior to my current role, I served as Executive Vice President (“VP”) – Utility Operations  
3 of KCP&L and GMO (2010-2011); Executive VP – Finance and Strategic Development  
4 and Chief Financial Officer (“CFO”) of GPE (2005-2010) and of KCP&L and GMO  
5 (2009-2010); and, CFO of KCP&L (2005-2008) and GMO (2008). Prior to that time, I  
6 was employed by El Paso Electric for nine years in various positions including General  
7 Counsel, Chief Administrative Officer and CFO. The remainder of my work career I  
8 worked as an attorney in the primary practice of regulatory law.

9 **Q: Have you previously testified in a proceeding before the Missouri Public Service**  
10 **Commission (“Commission” or “MPSC”) or other jurisdiction?**

11 A: Yes. I have previously testified before the MPSC, Kansas Corporation Commission,  
12 Federal Energy Regulatory Commission (“FERC”), the Public Utility Commission of  
13 Texas, the New Mexico Public Service Commission and various legislative committees  
14 of the Texas and New Mexico legislatures.

15 **Q: What is the purpose of your direct testimony?**

16 A: The purpose of my testimony is to:

- 17 1) Provide the MPSC with an overview of KCP&L’s and GMO’s operations;
- 18 2) Provide a summary of our rate increase request;
- 19 3) Provide an overview of the key drivers of our request;
- 20 4) Discuss the factors considered in making a rate increase request currently in the face  
21 of a continued lagging local economy;
- 22 5) Describe the Company’s on-going efforts in controlling costs and managing our  
23 business efficiently; and

1 6) Discuss some of GMO's on-going initiatives.

## 2 OVERVIEW OF KCP&L AND GMO

3 **Q: Please discuss KCP&L's and GMO's operations and history.**

4 A: KCP&L was originally founded in 1882 and is recognized one of the Midwest's most  
5 reliable and affordable energy suppliers. KCP&L is a wholly-owned subsidiary of GPE,  
6 which are both headquartered in Kansas City, Missouri. GPE is a public utility holding  
7 company which also owns GMO, formerly Aquila, Inc.

8 Through its regulated utility subsidiaries, GPE serves approximately 823,000  
9 customers in 47 counties in Missouri and eastern Kansas including approximately  
10 725,000 residences, 96,000 commercial firms, and 2,600 industrials, municipalities and  
11 other electric utilities. GMO alone, through its MPS and L&P Missouri jurisdictions,  
12 serves approximately 312,000 customers, including approximately 274,000 residences,  
13 38,000 commercial firms, and 500 industrials, municipalities and other electric utilities.  
14 GMO's electric service territory covers many Missouri counties and cities primarily  
15 centered around the Kansas City metropolitan area and St. Joseph, Missouri.

16 The Company's retail revenues – reflecting service provided to residences and  
17 businesses – averaged approximately 95 percent of its total operating revenues over the  
18 last three years. Wholesale firm power, bulk power sales and miscellaneous electric  
19 revenues accounted for the remainder of GMO's revenues. Like most electric utilities,  
20 GMO is significantly impacted by seasonality with approximately one-third of its retail  
21 revenues recorded in the third quarter.

22 To serve its customers, on a combined basis, KCP&L and GMO own more than  
23 4,300 mega-watts ("MW") of base load generating capacity and almost 2,300MW of

1 peak load generating capacity. GMO has ownership in four large coal-fired generating  
2 stations outright or in conjunction with joint partners with a combined GMO share of  
3 generating capacity over 1,000MWs. To provide peak load capacity, GMO has almost  
4 1,100MW of natural gas and oil-fired peaking capacity. GMO has long-term purchased  
5 capacity agreements for approximately 135MWs, which expire in 2014 through 2016,  
6 and in 2011 entered into a long-term power purchase agreement for approximately  
7 100MWs of wind generation beginning in 2012 that expires in 2032.

8 On a combined basis, KCP&L and GMO operate and maintain approximately  
9 22,000 miles of distribution lines and approximately 3,600 miles of transmission lines to  
10 serve customers across their service territory. GMO owns approximately 10,000 miles of  
11 distribution lines and 1,800 miles of transmission lines.

12 KCP&L is one of the largest employers in the region. KCP&L's employees serve  
13 GMO under a joint operating agreement and KCP&L employs more than 3,000  
14 employees, including more than 1,900 union employees. These employees are active in  
15 the communities we serve and conduct our business and activities under the guiding  
16 principle of "Improving Life in the Communities We Serve."

#### 17 **SUMMARY OF RATE INCREASE REQUEST**

18 **Q: Please summarize the Company's rate increase request in this filing.**

19 A: GMO is requesting an increase in our revenue requirement by approximately \$83.5  
20 million, which represents a 11.76% increase in rates. Specifically, the Company is  
21 requesting an increase for MPS of \$58.3 million or 10.9 percent, and an increase for L&P  
22 of \$25.2 million or 14.6 percent. If approved, this would represent an increase of \$0.27  
23 and \$0.36 a day for a typical residential customer for MPS and L&P, respectively.

1           This case is brought as a result of numerous factors with no single issue making  
2 up the majority of the increase. The costs of doing business and serving its customers  
3 have outpaced the Company's ability to maintain its current rates. Several factors driving  
4 the need for a rate increase include:

5       a)     **Infrastructure investments made to maintain reliability.** GMO provides some  
6 of the most reliable electric service in the country. In order to maintain reliability,  
7 GMO continues to invest in its system. By replacing equipment and improving  
8 technology, the Company will continue to meet its customers' expectations.

9       b)     **Final costs related to completion of the Company's new, state-of-the-art**  
10 **supercritical Iatan 2 generating unit,** which was completed in August 2010.

11       c)     **Regional transmission system investments.** GMO is a member of Southwest  
12 Power Pool ("SPP") Regional Transmission Organization ("RTO"). SPP and the  
13 other RTOs have followed the FERC's lead and have undertaken extensive  
14 transmission system infrastructure improvement projects in an effort to build out  
15 and refurbish the national transmission system. These improvements will not  
16 only improve the electrical grid, resulting in improved regional reliability, but will  
17 allow the delivery of renewable energy to this region. Part of this rate increase  
18 reflects the Company's allocated share of SPP's transmission upgrade costs and  
19 increases in associated SPP administrative fees.

20       d)     **Recovery of increasing fuel costs.** GMO has a fuel adjustment clause ("FAC")  
21 in both the MPS and L&P jurisdictions which allows for recovery of 95% of fuel  
22 cost increases above amounts in base retail rates. The increases in this case

1 represent the impact of resetting the fuel costs in base rates consistent with the  
2 Commission's order in GMO's last rate case.

3 e) **Investments required to meet Missouri's Renewable Energy Standard.** This  
4 Standard requires investor-owned utilities to deliver at least 5% of its electricity  
5 from renewable resources by 2014 and 10% by 2018. As stated previously, the  
6 Company entered into purchase power agreement for wind generation in 2011.  
7 This agreement will allow GMO to comply with the Standard.

8 f) **Energy efficiency ("EE") cost recovery.** In December 2011, the Company  
9 made a filing under the Missouri Energy Efficiency Investment Act ("MEEIA")  
10 requesting a rider for recovery of EE costs. The MEEIA filing in December has  
11 not yet been approved. GMO has included in this filing cost recovery for its  
12 requested EE programs in its MEEIA. If the Commission approves GMO's  
13 MEEIA filing before the completion of this case, the increase in this case would  
14 be lowered.

15 g) **Other operations and maintenance expenses.** These expense increases are  
16 covered in the Direct Testimony of Company witness John Weisensee.

17 **Q: Is the Company requesting any additional regulatory mechanisms?**

18 A: Yes. In order to better manage regulatory lag for certain expenses, GMO is proposing  
19 several expense trackers as part of this filing. These trackers will provide the Company  
20 with a better opportunity to obtain full and timely recovery of the costs it incurs to serve  
21 its customers. These expense trackers are more fully outlined in the Direct Testimony of  
22 Company witness Darrin Ives and other Company witnesses in this case.

1           GMO is also requesting approval by this Commission to implement an  
2 infrastructure improvement program for its L&P jurisdiction. We are submitting a  
3 comprehensive five-year, \$27 million plan that will address the overall distribution  
4 reliability, condition, and future capacity needs of the City of St. Joseph electrical system.  
5 Company witnesses Darrin Ives, William Herdegen and John Weisensee provide more  
6 details on this request in their Direct Testimonies.

7 **Q: What is GMO doing to keep costs down and reduce the requests for rate increases?**

8 A: We manage our costs to maintain competitive electric rates and we recognize that the rate  
9 increase requests pose challenges for our customers. The Company has worked very hard  
10 to manage the costs that can be controlled, which ultimately reduce the rate increase  
11 request. Cost control measures the Company has taken include the following:

- 12 a) Organizational realignment and voluntary separation plan (“ORVS”);
- 13 b) Flat non-fuel operations and maintenance budgets;
- 14 c) Capital budget review and non-critical project delays;
- 15 d) Supply Chain Transformation Process;
- 16 e) Generation division benchmarking project; and
- 17 f) Continued flow-through of GMO acquisition synergy savings.

18           In 2011, the Company implemented an organizational realignment initiative,  
19 coupled with a voluntary separation program, which will yield considerable customer  
20 savings for years to come. In addition to the Company’s usual efforts to keep its costs as  
21 low as possible in light of the economic conditions affecting us and our customers, as  
22 discussed in the Direct Testimony of Company witness Darrin Ives, GMO has redoubled  
23 its efforts to control costs and conserve capital.



1 **Q: Why can't GMO delay a rate increase until the economy improves for customers?**

2 A: As part of the Regulatory Compact with customers, GMO is obligated to provide reliable  
3 electricity to all customers. In order to maintain the ability to do so, it is incumbent on  
4 the Commission to grant recovery of our prudently incurred cost of service and an  
5 opportunity to earn a fair and reasonable return on our invested assets. The Company has  
6 incurred significant additional costs over the last few years. Because the Company's  
7 rates are set based on historical costs, these costs increases need to be recovered in a  
8 timely manner through a rate request.

9 **Q: What steps has GMO taken to assist its low-income customers during these difficult**  
10 **economic times?**

11 A: As described in the Direct Testimony of Company witness Jimmy Alberts, GMO has  
12 continued its Economic Relief Pilot Program ("ERPP"). The ERPP is a fixed credit that  
13 reduces electric bills for low-income customers. As Mr. Alberts more fully describes in  
14 his testimony, due to the success of this program, the Company is proposing, as a part of  
15 this rate increase request, a significant expansion in the number of customers allowed to  
16 participate, full funding of the program in retail rates, and additional focus for this  
17 program on senior citizens.

18 **Q: Does GMO participate in other programs designed to assist its low-income**  
19 **customers?**

20 A. Yes. GMO participates in Low-Income Weatherization Programs and a Dollar-Aide  
21 Program designed to assist low-income customers with weatherization of their homes.  
22 The Company also actively participates in community action programs, encourages

1 volunteerism among its employees, and makes charitable contributions intended to  
2 benefit various segments of low-income and elderly customer groups.

3 The Company also has continued to offer more flexible payment arrangement  
4 options and connects customers to LIHEAP funding and other financial assistance as part  
5 of its Connections program. This program has helped thousands of customers during a  
6 more challenging economy and has helped local community agencies reach the customers  
7 in greatest need of payment assistance.

### 8 ON-GOING GMO INITIATIVES

9 **Q: Please explain what activities GMO has been engaged in over the past 12 months to**  
10 **secure additional wind-based generation resources.**

11 A: GMO is committed to not only complying with its renewable energy obligations but  
12 pursuing additional renewable energy options when they result in benefits to ratepayers.  
13 In 2011, GMO entered into a long-term power purchase agreement for approximately  
14 100MWs of wind generation beginning in 2012 that will supply wind energy to GMO  
15 customers for term of 20 years.

16 **Q: Has GMO been active in any other renewable energy related activity?**

17 A: Yes. In 2010 GMO entered into an agreement with the City of St. Joseph to build and  
18 operate a landfill gas generating plant at the city's landfill. The 1.6MW unit will burn  
19 methane gas collected from approximately 47 wells in the 90-acre facility, producing  
20 enough energy to serve approximately 1,000 homes annually.

1 **Q: Will you explain any activity in regard to solar based generation that GMO has**  
2 **been a part of the past year?**

3 A: With respect to solar generation, GMO has issued over \$1.5 million in solar rebates to  
4 eligible customers since the Solar Photovoltaic Rebate Program tariff was initiated in  
5 2010.

6 **Q: Looking into the future what do you see as GMO's additions in the renewable**  
7 **arena?**

8 A: GMO evaluates the addition of renewable resources as part of its resource planning  
9 process. GMO also remains active in monitoring potential changes to renewable energy  
10 requirements at both state and federal levels. When it is determined that new renewable  
11 generation is cost effective for customers or required under law, GMO will determine  
12 how to best meet the renewable additions for our customers.

### 13 **CONCLUSION**

14 **Q: Do you have concluding remarks for the Commission's consideration?**

15 A: Yes. The Company is asking the Commission to allow it to recover the costs it has  
16 incurred to provide service to its customers. While those costs have increased, the  
17 Company continues to reduce the overall increase request as a result of cost management  
18 strategies that are producing millions of dollars of savings.

19 Second, in these difficult economic times, our shareholders have shared some of  
20 the burden. In the first quarter of 2009, the Company reduced its dividend to  
21 shareholders by 50 percent to conserve capital to reinvest in facilities needed by our  
22 customers. We have continued to pay-out dividends at a reduced level since that time.

1           Finally, the Company is asking the Commission to allow the Company the  
2 opportunity to earn a fair and reasonable return on its investments. This case is not about  
3 increasing profits for the Company. In recent years, the Company has not earned its  
4 allowed return on equity. Let me be clear that GMO is not asking for a guaranteed rate of  
5 return. However, by being allowed the opportunity to earn a fair and reasonable return  
6 on its investments, GMO will be able to continue serving its customers and attract the  
7 capital it needs to fund investments in its system.

8 **Q: What will allow the Company to have an opportunity to earn a fair and reasonable**  
9 **return on its investments and for the Company to address the challenges presented**  
10 **by regulatory lag?**

11 A. The Company is proposing several regulatory mechanisms that will help to improve its  
12 ability to address regulatory lag, which will in turn improve the Company's ability to  
13 earn a full and fair return. We are requesting expense trackers as more fully discussed in  
14 the Direct Testimony of Company witness Darrin Ives that will provide an opportunity  
15 for GMO to earn a return more in line with the return allowed by the Commission in this  
16 case. For example, the transmission tracker will help deal with the difficult issues  
17 surrounding the expansion of the transmission grid.

18           It is important for the Commission to allow the Company the opportunity to earn  
19 a fair and reasonable rate of return so that the Company will be in a position to be  
20 financially strong as it accesses the capital markets. The utility industry is among the  
21 most capital-intensive industries in the world. Failure to attract capital would have  
22 significant cost implications to the Company and ultimately to our customers. Dr.  
23 Samuel C. Hadaway is the Company's cost of capital expert in this case.

1           The combination of a reasonable allowed return and authorization of our  
2 requested regulatory mechanisms to manage regulatory lag will provide the Company an  
3 opportunity to earn a return closer to the return authorized by the Commission. Earning  
4 close to our allowed return is essential to our credit metrics and maintaining an  
5 investment grade rating. Maintaining an investment grade rating for its bonds is an  
6 important goal to ensure that the costs of borrowing for the Company's projects will be  
7 reasonable and at the lowest realistic costs. These lower costs benefit all constituencies.

8 **Q: Does that conclude your testimony?**

9 **A:** Yes, it does.

